



**PRIVATIZATION OF BANKING IN UZBEKISTAN: TRENDS AND
DIRECTIONS OF DEVELOPMENT**

Urinov Laziz Abdugaffarovich

Tashkent State University of Economics

Senior teacher of Andijan faculty

[*laziz.urinov1976@gmail.com*](mailto:laziz.urinov1976@gmail.com)

Joylovova Marjona Abdunazar qizi

Tashkent State University of Economics

Andijan faculty "Accounting and audit"

3rd year student of direction

[*marjonaabdunazarovna7@gmail.com*](mailto:marjonaabdunazarovna7@gmail.com)

Annotation: Privatization of the banking sector in the Republic of Uzbekistan is an integral part of economic reforms, and its main goal is to increase the efficiency of the bank's activities, strengthen international integration and attract foreign investment.

Keywords: Uzbekistan banking sector, privatization process, economic reforms, state share, investor attraction, bank stability, financial system, banking sector reforms, foreign capital, competitiveness, economic growth, financial stability, banking sector prospects.

Аннотация: Приватизация банковского сектора в Республике Узбекистан является неотъемлемой частью экономических реформ, и ее основной целью является повышение эффективности деятельности банка, усиление международной интеграции и привлечение иностранных инвестиций.

Ключевые слова: Банковский сектор Узбекистана, процесс приватизации, экономические реформы, доля государства, привлечение инвесторов, стабильность банков, финансовая система, реформы банковской



системы, иностранный капитал, конкурентоспособность, экономический рост, финансовая стабильность, перспективы банковского сектора.

Banking sector is one of the key drivers of economic growth, and its effective functioning contributes to economic stability, attracting investments and improving the welfare of population. Successful implementation of privatization process in a way allows improving the efficiency of commercial banks, improving the quality of banking services and ensuring international competitiveness. However, there are a number of pressing problems with the implementation of this process.

As soon as Uzbekistan gained independence, economic reforms began, and the process of liberalization of banking system was also realized, which was a major part of them. After Uzbekistan began to form economic policy in 1991, banking sector also began to gradually pass from state control to private sector. At the first stage, the banks were taken out of state control and tried to transition to activities based on free market principles. The beginning of the privatization process began mainly from the late 1990s. In this way, the policy of bank privatization was introduced by the Central Bank of Uzbekistan. Initially, the number of state-controlled banks was reduced, and their capital and management system began to be transferred to the private sector. In the early 2000s the banking sector began to be open to the private sector and interest from foreign investors increased. However, the speed and efficiency of the customization process did not produce the results we initially expected. Many banks, especially small and medium-sized banks, have faced issues of economic stability and competitiveness.

Today, the banking system of Uzbekistan has entered a new stage of privatization. The 2020 banking reforms, acceleration of privatization processes and reduction of the state share continue to be implemented. The main goal of privatization is modernization of banks, strengthening of their management system, increasing competition and growing participation of foreign capital in the banking capital, which is active in the national economy. By the end of 2023, it is planned that more than 60 per cent of the state-owned banks will be transferred to the private



sector. At present, 32 commercial banks operate in the banking system of Uzbekistan, 15 of which are privatized and have foreign capital. However, with the successful implementation of this process, there are a number of problems. One of the important tasks of privatization is to ensure the stability of the banking activity while reducing the share of the state. There are systemic problems and constraints in the management of banks' assets, minimizing risk and ensuring financial soundness. Privatized banks will have to conduct their operations in an adaptive manner to the economic conditions, however many of these banks have significant obstacles to ensure their financial stability and to reach the level of international requirements. In the process of privatization of the banking sector of Uzbekistan, a number of actual problems were encountered. Solving these problems is of paramount importance to improve the efficiency of the banking system and strengthen integration with the international market. The main problems can be characterized by the following aspects. Though the process of privatization in the banking system of Uzbekistan continues, the issue of reducing the state share remains relevant. Many banks now have a state-owned stake, which could lead to a downturn in the privatization process. For example, large state-owned banks such as "National Bank of Uzbekistan" (UZMB) and "Xalq Bank" indicate the need to fully develop the legal and financial conditions necessary for the transition to the private sector. According to plans announced by the central bank in 2023, the reduction of the state share is planned to be implemented in stages, but some banks need more time to maintain their financial stability.

Attraction of investors is a crucial task in the privatization of banking sector and implies attraction of capital not only domestic but also abroad. However, for investors, the banking system in Uzbekistan still carries certain risks. For example, the banking sector has a low level of risk management and a strong regulatory oversight system that is insufficiently developed. According to statistics for 2020, foreign investors occupied only less than 30% of the banking system of Uzbekistan. On the other hand, legal inequalities in the banking system and the volatility of economic conditions also pose a risk for investors. Along with reducing the share of



the state in the privatization process, it is important to ensure the financial stability of the banks. After privatization, banks will have to adapt their operations to more market conditions and become highly competitive. However, some banks are finding it difficult to maintain financial stability. For example, banks, such as Agrobank and Ipoteka Bank, due to having high credit risks and low capital in their operations, need special strategies aimed at maintaining financial stability in the process of privatization. Another important aspect of privatization is the modernization of the management system of the banks. In this process, the banks should introduce modern management methods and provide their services with innovative approaches. However, many banks in Uzbekistan still rely on outdated management systems, which reduces their effectiveness. For example, banks such as "Turonbank" and "Bank for Business Development" are experiencing some difficulties in digitalization and modernization of their management systems. The privatization process has far-reaching social and economic implications not only for the banking sector as well. After many banks switch to the private sector, they will be able to reduce or reduce their services, which may cause difficulties in meeting the population's demand for financial services. Also, the economic effects of privatization can have a direct impact on household incomes and economic growth rates. For example, the privatization of Asaka Bank underlined the need to train the population in financial literacy for several years in order to step up competition internationally. As privatization process in the banking sector of Uzbekistan continues, the prospects of privatization process require special attention to development of economic development and development of competitiveness. Successful privatization ensures not only modernization of banking sector, but also stable and effective functioning of the economic system as well. However, the prospects for the privatization process can be manifested in the following areas:

One of the main prospects of the privatization process is the attraction of foreign investors. Foreign capital brought into the country through the privatization of banks has a positive impact on the economic growth. As the banking sector of



Uzbekistan grows more open and competitive, new opportunities for the international investors will open. For example, foreign banks such as "TBC Bank" and "KDB Bank Uzbekistan" began to operate in Uzbekistan, thereby increasing competition in banking sector. Foreign investors not only bring financial resources, but also take advantage of new technologies, management systems and modern services to modernize the banking system. Privatization process will create important opportunities for intensifying competition in the banking sector and gaining its position in the market. With the privatization of banks, they will be forced to serve more customers, provide innovative products and services, and increase competitiveness. Strengthening competition, in turn, will allow banks to increase efficiency, improve the quality of services and provide cheaper services to customers. For example, after privatization of "Ipoteka Bank" and "Agrobank", they sought to modernize their services and introduce modern digital banking services. Through the privatization process the banks can improve their financial stability, introduce innovative technologies and bring them in line with international standards. It helps strengthen the banking sector and more efficient allocation of resources in the economy. After privatization, banks will need to introduce new governance systems and financial control mechanisms. For example, banks such as "Xalq Bank" and "Uzsanoatqurilishbank" plan to introduce modern management systems to ensure their financial stability after privatization. The privatization process can become an important factor for introducing innovative technologies in banking sector. Private banks will be able to effectively manage their activities through digitalization and online services. For example, banks such as "Kreditbank" and "Kapitalbank" have achieved the opportunity to create new opportunities for their customers through the introduction of digital services. Digital banking services, online loans, mobile applications and other innovative services contribute to the competition in the banking sector and help satisfy customers' needs quickly and efficiently. Taking into account the problems and prospects analyzed in the article, the following proposals are given:



1. Accelerating the process of reducing the state share: It is necessary to implement the reduction of the state share consistently and in a timely manner. It is necessary to take measures to strengthen this process, both financially and legally, to ensure the stability of the state-owned banks.

1. Creating favorable conditions for foreign investors: To create favorable conditions for foreign investors to enter and attract foreign investors, it is necessary to ensure financial stability and strengthen the legal framework. Thanks to it, it will be possible to introduce additional capital and modern technologies into the country.

➤ Creation of a competitive banking system: Innovative approaches should be developed by each bank in order to strengthen competition and improve the efficiency of the banking sector. Banks can achieve effective customer satisfaction through widespread introduction of modern management systems and digital technologies.

1. Ensuring financial stability: In the process of privatization, it is important to ensure the financial stability of banking sector. To do this, it is necessary to strengthen financial control, improve the risk management system for banks and implement measures to strengthen financial stability.

1. Minimizing social impacts: To minimize the social impact of privatization, it is necessary to increase financial literacy of the country's population, promote the development of small and medium-sized businesses, and ensure social responsibility of banks.

1. Widespread introduction of innovative technologies: Digitalization of banking sector and acceleration of implementation of innovative technologies is needed. Thanks to this, banks can provide their services more efficiently and cheaply.

REFERENCES

1. The Republic of Uzbekistan. Law "About the Central Bank of the Republic of Uzbekistan". – Tashkent, 1995.
2. The Republic of Uzbekistan. Law "On banks and banking activity" – Tashkent, 1996.



3. Decree of the President of the Republic of Uzbekistan. **"On the strategy of reforming the banking system of the Republic of Uzbekistan in 2020-2025"**; – Tashkent, 2020.
4. Decree of the President of the Republic of Uzbekistan. **"On measures for transformation and privatization of commercial banks with participation of the state"** – Tashkent, 2021
5. Central bank of the Republic of Uzbekistan. **Review of the development of the banking system of Uzbekistan.** – Tashkent, 2022–2023
6. Ministry of Economy and Finance of the Republic of Uzbekistan. **The analytical report on the development of banking and financial sector** – Tashkent, 2021
7. Urinov L.A. **Priority directions of reforming the banking sector in Uzbekistan** // Scientific journal "Economics and Innovative Technologies". – Tashkent, 2021. – No5.
8. Rakhimov M.Yu. **Modernization of banking system in Uzbekistan.** – Tashkent: Science and technology, 2020.
9. Gulyamov S.S. **Banking and financial intermediation.** – Tashkent: Economics, 2019.
10. Jo'rayev A.N. **Effective management of activity of commercial banks.** – Tashkent: Economics, 2021.